

VZCZCXRO8096

PP RUEHAO RUEHCD RUEHGA RUEHGD RUEHHA RUEHHO RUEHMC RUEHMT RUEHNG
RUEHNL RUEHQU RUEHRD RUEHRG RUEHRS RUEHTM RUEHVC
DE RUEHCV #1154/01 2461722
ZNY CCCCC ZZH
P 031722Z SEP 09
FM AMEMBASSY CARACAS
TO RUEHC/SECSTATE WASHDC PRIORITY 3654
INFO RUEHWH/WESTERN HEMISPHERIC AFFAIRS DIPL POSTS
RHEHNSC/NSC WASHDC
RUMIAAA/HQ USSOUTHCOM MIAMI FL
RUCPDOG/DEPT OF COMMERCE
RUEATRS/DEPT OF TREASURY

C O N F I D E N T I A L SECTION 01 OF 02 CARACAS 001154

SIPDIS

HQ SOUTHCOM ALSO FOR POLAD
TREASURY FOR MKACZMAREK
NSC FOR DRESTREPO
NSC FOR LROSSELLO
USDOC FOR 4332 MAC/ITA/WH/JLAO

E.O. 12958: DECL: 09/03/2019

TAGS: [ECIN](#) [ECON](#) [EFIN](#) [EIND](#) [EINV](#) [ELAB](#) [EMIN](#) [ENRG](#) [EPET](#)

ETRD, KCOR, VE

SUBJECT: GBRV MINISTER LIKENS PFIZER TO THE DEVIL, BUT
COMPANY IS STILL OPTIMISTIC

REF: CARACAS 902

Classified By: Economic Counselor Darnall Steuart for reasons
1.4 (b) and (d).

11. (C) SUMMARY: On August 27, Pfizer representatives told EconOffs that negotiations with the Ministry of Health for the sale of a pharmaceutical plant in Valencia have stalled following the July 31 appointment of Carlos Rotondaro as Health Minister. Pfizer has been unable to meet with Ministry officials to finalize the sale. Meanwhile, the company faces a public backlash, abetted by Commerce Minister Eduardo Saman, for shutting down the plant and laying off workers. On August 25, Pfizer paid 36.59 million bolivars (approximately USD 17 million at the official exchange rate) in back taxes after a GBRV audit alleged that the company had engaged in illegal price transfers in 2003. Despite these setbacks, Pfizer remains optimistic about selling the plant and opportunities for cooperation with the GBRV. Company representatives said that they plan to offer Commerce Minister Saman legal advice to help draft new legislation on patents and trademarks. END SUMMARY.

NEGOTIATIONS STALLED

12. (C) The Embassy requested a meeting with Pfizer following a spate of press reports that a company plant might be seized. In a meeting on August 27, Public Affairs Director Jesus Del Vecchio and Legal Director Beatriz Linares (protect throughout) told EconOffs that negotiations over the sale of one of Pfizer's two pharmaceutical plants in Valencia have stalled. According to Linares, Pfizer decided to sell the plant, valued at USD 20 million, three or four years ago. Negotiations with the government began in April 2009. In July 2009, Pfizer reached a tentative agreement with then-Health Minister Jesus Mantilla to lay off or transfer the plant's remaining workers and to sign a 12 month technical cooperation agreement to help the GBRV establish good manufacturing and quality control processes.

13. (C) Linares said that the GBRV's decision to purchase the plant may have been related to Commerce Minister Eduardo Saman's public statements that the GBRV would substitute for drug imports by increasing domestic production. She noted that the GBRV had acquired a large plot of land near the Valencia plant, which will reportedly be used to develop a

pharmaceutical complex, and speculated that the acquisition of the Valencia plant could be the cornerstone for the development of a state-owned pharmaceutical industry.

14. (C) According to Linares, Mantilla was eager to finalize the agreement before August 1 because he was not sure how much longer he would remain as Health Minister. On July 30, in accordance with the tentative agreement, Pfizer reassigned or laid off the plant's remaining 170 employees. Linares said that the employees had two options: transfer to Pfizer's West Valencia plant with the same compensation and benefits or accept a generous severance package. Most employees chose the severance package, she said.

IN A DIFFICULT POSITION

15. (C) On July 31, the GBRV announced that Carlos Rotondaro had replaced Mantilla as Health Minister. Rotondaro, a former military officer, previously served as President of the Board of Directors for the Venezuelan Social Security Institute. Since Rotondaro's appointment, Pfizer has been unable to speak with the Health Minister to finalize the sale of the plant, Linares said. Ministry officials have told Linares that the Minister is currently occupied with other pressing health issues, but indicated that Rotondaro would like to meet with Pfizer representatives in early September to discuss the deal.

16. (C) Linares said that Pfizer is in a difficult position. The public perception is that Pfizer closed the plant and left the workers on the street. Now the plant is not

CARACAS 00001154 002 OF 002

operational and Pfizer cannot meet with the GBRV to finalize the sale. Meanwhile, Commerce Minister Eduardo Saman has publicly claimed that Pfizer never had any intention to sell the plant. On August 12, Saman told reporters that the GBRV could temporarily occupy the plant to resume production. "If the negotiations fail, our Ministry is going to proceed with the occupation of the plant to make it function," he said. "They closed the plant after saying that they would not halt production, deceiving not only the government, but also the workers. That is how the devil and the transnationals pay the people," Saman added. Nevertheless, Linares was optimistic that Pfizer would ultimately reach a deal with the GBRV. She expressed doubt that the GBRV would try to expropriate the plant.

THE DEVIL IS IN THE DETAILS

17. (C) Linares informed EmbOffs that Saman has reportedly already produced a draft for new intellectual property legislation. This project may have slowed down because of Saman's stated goal to develop ALBA-wide legislation, and the press reports that ALBA members have agreed to develop a joint pharmaceutical laboratory. Linares, however, said that Pfizer's lawyers had requested a meeting with Saman to offer to help the government draft its legislation on patents and trademarks. "We wish to be to be pioneers in helping out a socialist government with health issues," Linares said.

AN ILLEGAL AUDIT?

18. (C) According to Del Vecchio, in the last quarter of 2008, Venezuela's tax service (SENIAT) began a review of a merger between Pfizer and another pharmaceutical company in 2003. In May 2009, SENIAT claimed that Pfizer owed 36.59 million bolivars (approximately USD 17 million at the official exchange rate) citing Pfizer's accounting practices and omissions of operational revenue. Del Vecchio said the

review of the 2003 merger was not legal under Venezuela's statute of limitations, but Pfizer paid the fine in order to avoid a legal battle that might jeopardize Pfizer's business in Venezuela. Del Vecchio speculated that labor issues in the plant may have motivated the audit.

COMMENT

[19](#). (C) Post does not share Pfizer's optimism about the outcome of future negotiations with the GBRV. In Post's experience, GBRV audits and smear campaigns are part of a familiar pattern of harassment--and sometimes expropriation--of foreign companies. While the eventual outcome of negotiations is unclear, Saman's remarks do suggest that the GBRV's acquisition of the East Valencia plant, either through purchase or expropriation, is part of a concerted strategy to replace generic drug imports by increasing domestic production. Given the GBRV's limited technical expertise in pharmaceutical manufacturing, and its poor track record for managing state-owned enterprises, this strategy has uncertain prospects for success.
DUDDY